

## DECISION MEMORANDUM

**TO:** COMMISSIONER KEMPTON  
COMMISSIONER SMITH  
COMMISSIONER REDFORD  
COMMISSION SECRETARY  
COMMISSION STAFF  
LEGAL

**FROM:** NEIL PRICE  
DEPUTY ATTORNEY GENERAL

**DATE:** JANUARY 8, 2010

**SUBJECT:** PACIFICORP'S APPLICATION FOR APPROVAL OF AN  
ACCOUNTING ORDER RECORDING "COAL STRIPPING" COSTS AS  
A REGULATORY ASSET, CASE NO. PAC-E-09-08

On October 13, 2009, PacifiCorp dba Rocky Mountain Power ("Rocky Mountain" or "Company") filed an Application with the Idaho Public Utilities Commission ("Commission") for approval of an accounting order authorizing the Company to "record a regulatory asset associated with the costs of removal of overburden and waste materials at its affiliate coal mines" pursuant to *Idaho Code* § 61-524 and RP 52. Application at 1.

On November 10, 2009, the Commission issued a Notice of Application and Modified Procedure establishing a 21-day open comment period. *See* Order No. 30942. Commission Staff was the only party to submit comments regarding Rocky Mountain's Application within the established comment period.

### THE APPLICATION

Rocky Mountain operates numerous coal-fired power plants throughout the western United States. The Company owns several coal mines, including the Bridger, Deer Creek and Trapper Mines ("the Mines"), that supply the coal needed to operate these plants. Coal is extracted from the Mines using "various underground and surface mining techniques." *Application* at 2. Surface mining requires the removal of soil, rock or 'overburden' on seams of coal which lie near the surface." *Id.* The Company refers to the costs of removing the "overburden and waste materials" as "stripping costs." *Id.*

Rocky Mountain cites to Financial Accounting Standards Board ("FASB") Emerging Issues Task Force standard 04-6 ("EITF 04-6") and states that "stripping costs incurred during

production are considered a component of inventory when incurred, without consideration of future potential benefits.” *Id.* In contrast, “the coal itself must be extracted from its original location in order to qualify as inventory.” *Id.* According to Rocky Mountain, this disparate accounting treatment leads to “an inherent mismatch of stripping costs with coal inventory balances” and ultimately leads to customers paying for “the costs of uncovering coal well before it is extracted from the mine” to be used as fuel for the coal-fired power plants. *Id.*

The Company states that 2010 is the first year it will have to “deal with significant stripping costs since the issuance of EITF 04-6.” *Id.* at 3. For example, as its Bridger Coal Mine transitions from a surface mine to a surface/underground mining complex, the Company believes that there will be an increasing disparity between the time when stripping costs are incurred and when the coal is actually extracted. *Id.*

Rocky Mountain’s Application seeks to more closely “match the costs of coal stripping with the extraction of the coal.” *Id.* The Company requests that the “upfront coal stripping costs be recorded as a regulatory asset . . . much like a fuel inventory account and expensed as the coal is extracted. . . .” *Id.* at 4. The authorization for recording the coal stripping costs as a regulatory asset would “eliminate the expensing of coal stripping costs when incurred as required by EITF 04-6.” *Id.* Rocky Mountain proposes that these costs be recorded in Account 182.3, Other Regulatory Assets and Account 501, Fuel Expense based on “extracted” coal delivery. *Id.* The Company believes that customers will benefit from the modification of the customary treatment of stripping expenses under EITF 04-6 through increased “intergeneration equity among customers.” *Id.* at 3-4.

#### **STAFF COMMENTS**

Staff agrees with the Company’s assertion that EITF-04-06 accounting treatment creates inherent cost mismatches and fuel cost volatility. *Staff Comments* at 3. Thus, Staff believes that it is prudent to “allow the Company to create a regulatory asset in FERC Account 182.3 (Other Regulatory Assets) to account for the cumulative effect of removing mine overburden during the production phase at the affiliate mines.” *Id.* at 4. This type of accounting treatment would essentially “allow the Company to continue accounting for coal stripping costs as they did prior to 2006.” *Id.* at 3. Staff withheld its judgment of the “specific ratemaking impact” associated with the deferral of the stripping costs. *Id.* at 4.

Staff agreed that allowing a carrying charge on the regulatory asset associated with mine stripping costs or including it in rate base is not warranted. *Id.* Staff believes that Rocky Mountain's dominant market position vis-à-vis its affiliate coal mines predicate "that all transactions between affiliates should be subject to greater scrutiny during audit prior to any inclusion of expenses in rates" during the next general rate case. *Id.*

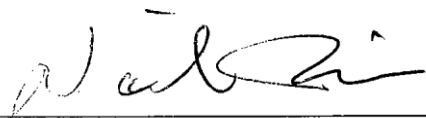
### **STAFF RECOMMENDATION**

Staff recommends approval of "Rocky Mountain Power's Application for an Accounting Order allowing the Company to create a regulatory asset to defer costs associated with mine stripping during coal production." *Id.* at 4. The deferred costs would be amortized "over the production life of the coal mine." *Id.* Staff recommends that the Company use separate sub-accounts for entries in its Account 501 (Fuel Expense) in order to facilitate Staff's ability to audit account activity as needed. *Id.* Staff also recommends that Rocky Mountain not be permitted to earn a return on the regulatory asset created by the deferral of coal mine stripping costs. *Id.* It should be noted that Rocky Mountain's Application did not include a request to earn a return on the regulatory asset. *Id.*

Finally, Staff recommends that the Commission include explicit language in its "final Order reiterating that approval of the Company's Application for an Accounting Order allows deferral of costs and provides the opportunity for recovery" and should not be interpreted as "automatic approval of the specific dollar amounts recorded in the regulatory assets for inclusion in the calculation of the Company's revenue requirement." *Id.* at 5. "The actual amount to be recovered in rates should be determined in further proceedings addressing the actual costs." *Id.*

### **COMMISSION DECISION**

Does the Commission wish to approve Rocky Mountain's Application for approval of an accounting order authorizing the Company to record a regulatory asset associated with the costs of removal of overburden and waste materials at its affiliate coal mines?

---

Neil Price  
Deputy Attorney General